THE OFFICE OF REGULATORY STAFF

SURREBUTTAL TESTIMONY

OF

DR. DOUGLAS H. CARLISLE

SEPTEMBER 2, 2011

DOCKET NO. 2011-47-WS

Application of Carolina Water Service, Incorporated for Approval of an Increase in Its Rates for Water and Sewer Services Provided to All of Its Service Areas in South Carolina

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FOR

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DOCKET NO. 2011-47-WS

IN RE: APPLICATION OF CAROLINA WATER SERVICE, INCORPORATED FOR APPROVAL OF AN INCREASE IN ITS RATES FOR WATER AND SEWER SERVICES PROVIDED TO ALL OF ITS SERVICE AREAS IN SOUTH CAROLINA

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Dr. Douglas H. Carlisle, Jr. I am an Economist at the South Carolina Office of Regulatory Staff ("ORS"). My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201.

Q. ARE YOU THE SAME DOUGLAS H. CARLISLE WHO PRESENTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of by surrebuttal testimony is to address issues raised by CWS witness, Ms. Pauline Ahern, in her rebuttal testimony.

<u>Discounted Cash Flow ("DCF") Surrebuttal</u>

Q. DID YOU USE ANALYSTS' ESTIMATES OF MAJOR INDICATORS OF GROWTH IN YOUR DCF ANALYSIS?

A. Yes.

Q. DO YOU THINK THAT ANALYSTS' EXTIMATES ARE UNRELIABLE?

A. No.

Q. DO YOU COMPLETELY ACCEPT ANALYSTS' PREDICTIONS BECAUSE THEY ARE THE BEST AVAILABLE INFORMATION ABOUT FUTURE GROWTH?

A. No. Investors are unlikely to accept analysts' estimates and to ignore any other data or information.

Q. WHAT DO YOU CONSIDER THE MOST PRACTICAL REASON FOR USING INFORMATION OTHER THAN ANALYSTS' ESTIMATES?

A. The most practical reason is that analysts are often incorrect. First, any prediction about future human behavior is likely to be imprecise. Second, analysts tend to be optimistic and overestimate earnings.

Q. SHOULD ALL ANALYSTS' ESTIMATES BE IGNORED WHEN ONLY ONE OR TWO ANALYSTS ERR?

A. No. I use analysts' estimates, which I would not if I thought they were irrelevant. To compensate for individual errors, I use more than one source of estimates and each source, in turn, often has more than one analyst performing estimates for each company.

Far from ignoring analysts' advice, an investor, especially an inexperienced one, would do well to seek the advice of a good analyst. Analysts may have great insight into companies and a good analyst has the valuable ability to reduce investors' risk of losing money, which is important to earning a good overall return.

Q. IS THERE EVIDENCE THAT ONLY USING ANALYSTS' ESTIMATES COULD PRODUCE INCORRECT RESULTS?

A. Stock analysts, collectively, tend to produce overly optimistic estimates. I could speculate on the reasons why this is the case, but their motives are not so much important as the established fact that, as a general rule, they are overly optimistic.

Three analysts for the McKinsey & Company, a global management consulting company, reviewed 25 years of data comparing stock analysts' estimates and the performance of Standard & Poors ("S&P") 500 companies. In their 2010 article, "Equity Analysts: Still Too Bullish," they stated:

> *No executive would dispute that analysts' forecasts serve as an important benchmark of the current and future health of companies. To better understand their accuracy, we undertook research nearly a decade ago that produced sobering results. Analysts, we found, were typically overoptimistic, slow to revise their forecasts to reflect new economic conditions, and prone to make increasingly inaccurate forecasts when economic growth declined.*
>
> *Alas, a recently completed update of our work only reinforces this view — despite a series of rules and regulations, dating to the last decade, that were intended to improve the quality of the analysts' long-term earnings forecasts, restore investor confidence in them, and prevent conflicts of interest.*[1]

As I noted earlier, one can try to obviate the errors of individual analysts by using sources that utilize several analysts and by using more than one source. Researchers note that "the actual earnings S&P companies report do occasionally coincide with the analysts' forecasts."[2]

Q. WHAT OTHER SUPPORT DO YOU HAVE FOR YOUR CONCLUSION REGARDING ANALYSTS' ACCURACY?

A. Mark T. Bradshaw, in an interview for the Harvard Business School's Working Knowledge publication in 2004 stated economic incentives exist that encourage analysts

[1] Marc Goedhart, Rishi Raj and Abhishek Saxena, "Equity Analysts: Still too Bullish," in McKinsey Quarterly, April 2010, accessed through on-line version https://www.mckinseyquarterly.com.
[2] Ibid.

to make overly optimistic forecasts.[3] He found that forecasts were consistently very optimistic when companies were likely to float more stock or debt. The conclusions remain the same in subsequent studies. For example, Dr William E. Baker of San Diego State University and his colleague, Mario Ramos, found stocks with Buy ratings that they studied for the period 1998-2005 actually underperformed those with Hold and Sell ratings.[4]

Q. WHY DID YOU USE STOCK ANALYSTS AT ALL?

A. I use them to improve accuracy. There is evidence that, taken in conjunction with other data,[5] analysts' estimates can be useful and provide better accuracy than historical trends alone but their value becomes quite small long term.

Q. WHAT RELEVANCE DOES THE LONG TERM ACCURACY OF ANALYSTS HAVE ON THE DCF MODEL?

A. The DCF model and its mathematics depend on analyzing investments as perpetuities, meaning investments that yield a stream of payments to investors over an infinite time horizon. The long-term requirement of this model makes long-term accuracy critical.

Q. WHAT EVIDENCE DO YOU HAVE THAT INVESTORS PAY ATTENTION TO HISTORICAL TRENDS, SINCE WHAT THEY DO MAY NOT BE INFLUENCED BY EXPERTS' STUDIES?

[3] Ann Cullen interview with Professor Mark T. Bradshaw, "The Bias of Wall Street Analysts," in HBS [Harvard Business School] Working Knowledge, October 18, 2004.
[4] Barron's Online: Investors' Soapbox, December 11, 2008.
[5] Roger K. Loh and G. Mujtaba Mian, "Do accurate earnings forecasts facilitate superior investment recommendations?" Journal of Financial Economics, Volume 80, Issue 2, May 2006, Pages 455-483.

A. I will start with logical evidence and then proceed to more tangible evidence. Every potential investor is aware of the economic events over the past five years and rapid fall of the stock market during the recent recession. It is difficult to believe, even if analysts fully take these events into consideration in their estimates, that investors will be unswayed by their knowledge of these events, which include historical financial data. More tangibly, most common sources of data include historical data. A good example of how important one service considers historical data can be found in the Value Line pages included in my direct testimony Exhibit DHC-7 where row after row of historical data appears. Indeed as much or more historical data appears than estimates. It is doubtful so much historical data would be offered if investors had no interest in it and it is equally doubtful that investors, having looked at the historical data, would ignore its significance.

Q. DO YOU BELIEVE THAT INVESTORS MAY BE AWARE OF ANALYSTS' ACCURACY AND THAT THEY DISCOUNT INFLATED ESTIMATES?

A. It seems likely that investors are aware of analysts' inaccuracies and that they tend to discount the estimates

Capital Asset Pricing Model ("CAP-M") Surrebuttal: Geometric Mean/Compound Annual Growth Rate

Q. WHY DID YOU USE ONLY A GEOMETRIC AVERAGE FOR THE MARKET RETURN ("R_m") COMPONENT OF YOUR CAP-M ANALYSIS?

A. I used the geometric mean, better known to businessmen as the Compound Average Growth Rate ("CAGR"), because it fairly reflects long-term growth of companies. The simple annual average does not and, in my opinion, is especially misleading in the current economic and financial market.

Q. WHAT IS THE DIFFERENCE BETWEEN THESE TWO TYPES OF AVERAGE?

A. Compounding is one of the most powerful considerations in finance and investment. The geometric mean or CAGR recognizes this fact, but the simple annual average ignores it and can even mislead investors.

Q. HOW COULD THE SIMPLE ANNUAL AVERAGE MISLEAD INVESTORS?

A. Every year or period involves a change, which results in a new starting point, sometimes called the base or basis for the next year's calculation of return. The geometric mean or CAGR recognizes this fact, but the simple annual average does not. In essence, the simple average combines the average change starting from different bases and treats them as though they started from the same base. Investors care whether they are getting a 10% increase in $100 versus a 10% increase in $1,000. The example below demonstrates that the simple/arithmetic annual average does not reflect the changing base:

Starting amount:	$100
% change	+75%
Ending amount, year 1:	$175
% change	+100%
Ending amount, year 2	$350
% change	-100%
Ending amount, year 3	$ 0

Average change = (75% + 100% - 100%) / 3 = 25%
BUT applying this average does not give us the actual result:

Starting amount:	$100
% change	*125%
Ending amount, year 1:	$125
% change	*125%
Ending amount, year 2	$156
% change	*125%
Ending amount, year 3	$ 195

This example correctly illustrates how misleading a simple average of the annual average changes can be and it the possibility that investors can lose money is far from imaginary. Certainly in the example above, an investor who expected to have $195 would be sorely disappointed to discover that the actual return was zero and all the original investment was gone, so there was no return of the starting investment. In fact, unless the percentage change is the same every year, the simple average will always be larger than the geometric mean. Over long periods of time, as an investment grows through compounding, the chances grow ever larger that higher percentage returns on lower starting amounts will be averaged in with lower percentage returns on higher amounts.

Q. IS THE AVERAGE OF ANNUAL SIMPLE AVERAGE CHANGES A RELIABLE GUIDE TO RISK?

A. No. It is not even a reliable guide to volatility. The standard deviation better measures volatility. Although not every investor will know the formula for standard deviation, every investor can tell whether a stock is more volatile and, to whatever extent that volatility indicates risk, riskier.

Q. WHY IS THE GEOMETRIC MEAN THE APPROPRIATE MEASURE FOR USE IN CAP-M ANALYSIS?

A. It is appropriate because it is historical and gives an accurate picture of what has already happened. The crucial thing to remember about the CAGR or geometric mean with respect to CAP-M is that its function is historical. The R_m component tells what has already happened. It is not a measure of the current state of the market. There is a measure to assess the current state of the market: β. This measure is powerful because it has a dual function: it both shows what the market overall is doing and what a particular

stock is doing. If a stock varies compared with the overall market, its β changes. If the overall market changes but a stock does not, then that stock's β still changes. Moreover, the Risk-Free Rate also varies, according to the price of relatively riskless borrowing. Among the components of the CAP-M, then, the R_m is historical and relatively static.

Q. IF THE LONG-TERM MARKET RETURN IS HISTORICAL AND THE GEOMETRIC MEAN MORE APPROPRIATE, WHY DOES THE SOURCE OF DATA FOR THIS RETURN STATE THAT THE ARITHMETIC AVERAGE IS MORE APPROPRIATE?

A. The statements in the Ibbotson Yearbook must be read closely to understand their true meaning. If every year is analyzed independently of every other year and an investment is assessed according to the chances that it will bring given levels of return in a given year, then the arithmetic average is appropriate. While, on some level that may be true, there are so many questionable assumptions, even presumptions, in this statement that its main point is unsupportable. I will take each assumption in turn.

First is the assumption that investors care about one year's return and only that year's return and exactly that year's return for every year for every investment. This is a necessary assumption otherwise investors would rely on the compound rate of growth to guide them.

Second, is the assumption that investors can perfectly trade annually so as to realize all gains every year, exactly every year without any losses and without the transaction costs necessary to rebalance decile portfolios every quarter. Without this assumption, one must consider what investments do over multiple periods. In effect, the realization of each year's gain, independently of every other year's, assumes perfect

timing of the market. While this may be the philosopher's stone of investing, no one achieves this result. If investors believe they cannot perfectly time the market, they know they will not achieve gains year by year or month by month, but rather at the end of the time they hold the investment.

Third is the assumption that investors think in some manner such as the following: "I have a 13% chance of making a 9% gain on this investment, a 19% chance of making a 14% gain on this investment, a 23% chance of making a 17% gain, a 37% chance of making a 21% gain, a 6% chance of making a 25% gain and a 2% chance of a 20% loss." Perhaps some analysts think in this manner, but I do not believe that the average investor thinks this way. Perhaps there are some algorithms which tell fund managers when to buy and sell that incorporate such thinking, but managers and their funds are ultimately judged on actual returns per year, which are better reflected by the CAGR/geometric mean. Moreover, since analysts tend to err on the high side in their estimates, an investor cannot rely on analysts' estimates alone. Investors may expect to receive certain returns, but their behavior in buying and selling stocks must ultimately rest upon their requirements of the stock including what return they need to receive to induce them to buy or to encourage them to sell.

Fourth, the true role of R_m is historical, as I have already discussed. The Ibbotson book, while holding out for use of the arithmetic average, concedes that, for historical returns, the geometric mean is superior. In fact, in an earlier version of the book, on page 59 of the 1982 Edition of Stocks, Bonds, Bills and Inflation: The Past and the Future Ibbotson stated:

> *The arithmetic mean historical return on a component is used in making one-year forecasts, since the arithmetic mean accurately represents the*

average performance over a one-year period. Over a long forecast period, however, the geometric mean historical return represents average performance over the whole period (stated on an annual basis). Therefore, we input the arithmetic mean for a one year forecast, the geometric mean for the twenty year forecast and intermediate values for two, three, four, five and ten year forecasts.

Q. IF THE GEOMETRIC MEAN MEASURES HISTORICAL RETURNS, DOES THAT MEAN THAT THE MARKET RETURN (R_m) DOES NOT HAVE AN EXPECTATIONAL ROLE IN THE CAP-M?

A. No. It means that the expectation is that future R_m will conform to the very long-term historical trends. It would be misleading to claim higher returns than have actually been realizable. It is possible to use shorter periods, but when the amount of data declines, statistical errors creep into the analysis.

Q. WHY DO YOU USE ONLY THE GEOMETRIC MEAN FOR YOUR CAP-M ANALYSIS WHEN YOU COULD HAVE USED BOTH THE GEOMETRIC AND ARITHMETIC MEANS?

A. Dr. Aswath Damodaran, an expert in finance at New York University, addresses this issue quite forcefully. While acknowledging some analysts and academics argue for the arithmetic mean, he reasons:

…There are, however, strong arguments that can be made for the use of geometric averages. First, empirical studies seem to indicate that returns on stocks are negatively correlated over time. Consequently, the arithmetic average return is likely to over state the premium. Second, while asset pricing models may be single period models, the use of these models to get expected returns over long periods (such as five or ten years) suggests that the estimation period may be much longer than a year. In this context, the argument for geometric average premiums becomes stronger. Indro and Lee (1997) compare arithmetic and geometric premiums, find them both wanting, and argue for a weighted average, with the weight on the geometric premium increasing with the time horizon.

> *In closing, the averaging approach used clearly matters. Arithmetic averages will ~~be~~ [sic] yield higher risk premiums than geometric averages, but using these arithmetic average premiums to obtain discount rates, which are then compounded over time, seems internally inconsistent. In corporate finance and valuation, at least, the argument for using geometric average premiums as estimates is strong.*[6]

The evidence cited by Dr. Damodaran demonstrates negative autocorrelation, that is, returns below average in one period tend to be associated with ones above average in the next and vice versa, and the argument grows stronger as the period grows longer. This phenomenon aggravates the overstatement of returns produced by the simple average. Evidence shows, with long-term returns, such as contained in the Ibbotson book, the geometric mean, or compound annual growth rate, produces a much more accurate result.[7]

Q. DID YOU JUST USE LARGE-COMPANY RETURNS OR RETURNS JUST IN LARGE-COMPANY DECILES?

A. No. I used the all 10 deciles, from smallest to largest companies. See Surrebuttal Exhibit DHC-1.

Capital Asset Pricing Model ("CAP-M") Surrebuttal: ECAP-M

Q. WHAT IS THE E-CAP-M IN GENERAL TERMS?

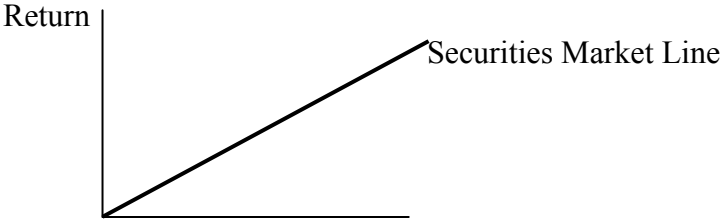
A. It is an invention of Dr. Roger A. Morin to compensate for the observed fact that low-β stocks produce higher returns than a straight line between return and risk, as measured by β, would indicate and that higher-β stocks produce a lower return than that line, called the Standard Market Line, would suggest.

[6] Aswath Damodoran, Equity Risk Premiums (ERP): Determinants, Estimation and Implications – The 2011 Edition, pp. 23-24 accessed at: www.stern.nyu.edu/~adamodar/pdfiles/papers/ERP2011.pdf

[7] Ibid., p. 24.

Q. WHY DO YOU NOT USE ECAP-M IN YOUR ANALYSIS?

A. The main reason I do not use this in my analysis is there is already a compensation for the supposed underperformance of low-β stocks incorporated into the β's that I obtained from Value Line. It has been observed over time that β's tend to regress toward the mean. In other words, low β's tend to become higher and high β's tend to become lower. Value Line adjusts its β's to recognize this fact. Specifically, Value Line compensates for this tendency with the formula: Adjusted Beta = Raw Beta x 67% + Market Beta x 35%. The effect is the same as the ECAP-M, so such an adjustment has already been made. I disagree with Dr. Morin's assertion that a return adjustment is needed on top of a β adjustment, in effect double-counting a debatable phenomenon.



There are additional reasons why I do not use the ECAP-M : 1) it is based on comparisons with short-term Treasury bills, yet the R_m is clearly long-term; 2) it ignores survivorship bias, that small companies with negative returns disappear and so are not counted; and, 3) there is no empirical study reviewed by independent academic

authorities that supports the ECAP-M. (See Surrebuttal testimony on the Small-Company Premium.)

Capital Asset Pricing Model ("CAP-M") Surrebuttal: Validity of CAP-M, especially β

Q. IS THE CAP-M IN ITS SIMPLEST FORM, WITHOUT SPECIAL MODIFICATIONS?

A. CAP-M remains valid and useful, if properly used. Financial economists and practioners have spilt great deal of ink in debating the validity of CAP-M, the risk premium and β. While aware of academic debates over the validity of CAP-M, I find the conclusions published in the Federal Reserve Bank of Minneapolis Quarterly Review convincing. Although the article concedes that, in the short run, the CAP-M suffers deficiencies, the various problems with the attacks on CAP-M indicate that it has validity, either in some modified form or when used for the very long-term. Thus, in its most valid form, the CAP-M reflects perpetuity, like the DCF. Notably, after surveying the major literature on the CAP-M, the problem that the authors find is not with the relationship between small companies and β, but with the R_m's not including assets other than stocks.

CAP-M remains intuitively appealing: the market β is one. Less risky stocks have a β below 1 and riskier stocks have a β above 1.

Q. DOES YOUR USE OF THE CAP-M RELY UPON ONLY ONE SOURCE AND DO YOU HAVE CONCERNS ABOUT ITS VALIDITY?

A. No. My citation of the Minneapolis Federal Reserve study demonstrates there are scholars who believe the CAP-M remains valid. While the β statistic will continue to be controversial, we may ignore these controversies for two reasons. First, the CAP-M

makes a certain amount of sense, as does the DCF, and no one has truly perfected a way to test its validity. Two of its greatest critics, Eugene F. Fama and Kenneth R. French, note that it is a very difficult theory to test. Second, the main function of CAP-M is to determine a risk premium. Fama and French have estimated the risk premium to be in the 3-4% range.[8] Since the time they published their estimate, inflation and economic growth have fallen and Treasury securities have remained at a historic low range (see Direct Testimony Exhibit DHC-11). A higher risk premium must come from some actual cost rate increases, but none have appeared.

Comparable Earnings Model ("CEM") Surrebuttal

Q. WHY DID YOU USE β's AS ONE BASIS FOR SELECTING YOUR CEM GROUP?

A. If one accepts that β measures risk, then it will select non-regulated companies of comparable risk to the regulated ones with the same β's. The β statistic has the added advantage of incorporating not just volatility, but covariance, which deals with the same sorts of relationships as regression.

Q. ARE β's MARKET BASED?

A. Yes. They show the relationship between market price changes between a stock and the rest of the market. They are market based and the relationship that they represent incorporates market risks.

Q. ARE DIVIDEND YIELDS RELATED TO THE MARKET?

A. Yes. Simple mathematics requires dividend yields to be related to the market. If the dividend payment remains constant for a company and the stock price rises, the dividend yield falls. Dividends reduce risk, other things being equal, because they assure

[8] Eugene F. Fama and Kenneth R. French, "The Equity Premium," *The Journal of Finance*, (April 2002).

investors of at least some return of their original investment and, with compounding or stock price appreciation, return on investment. From day to day, even moment to moment, as stock prices change, dividend yields change with them. Dividend yields stand as an easily understood, non-esoteric way for investors to measure companies' generation of cash that they are willing to share with their investors and to measure all other investors' assessments of each stock that pays or may pay dividends. Dividend yields are one way to unite companies' sales, management and earnings capacity. In the regulated utilities market, dividend yields unite sales, management of a company and its attractiveness in the market for investments. Although CEM is historical, I did use projected dividend yields in my analysis to show what resources analysts think companies will have to devote to rewarding investors in the short-term.

Q. HOW MANY VALUE LINE SECTORS WERE IN YOUR CEM GROUP?

A. 100.

Q. DOES THE BASIS OF CEM REST ON NON-DIVERSIFIABLE MARKET RISK?

A. No. Even if it used the same assumptions as the CAP-M, which it does not, diversifiable risk, under CAP-M, is not rewarded. Companies will not reward investors for diversifiable risk because the portfolio of companies can eliminate that risk. Investors will not expect a return on such risk for the same reason. Under CAP-M, the remaining non-diversifiable risk is measured by β. By controlling for β, one is supposed to control for all risks. These observations, apply only to CAP-M.

Q. SINCE YOU USED β TO SELECT YOUR CEM GROUP, ARE YOU BEING INCONSISTENT?

A. β is a statistic, not a theory. It shows how a stock varies compared to other stocks, both in magnitude and direction. The CAP-M theory, as I have just noted, rests upon certain measures of risk, but the use of the key statistic in CAP-M as a screen for a CEM analysis does not mean that one has to import CAP-M theory into the CEM analysis. For example, I did not include the following in my CEM analysis: hurdle rate; market returns down through the years; and, Risk-Free Rate of return.

By the same token, my CEM also includes dividend yields, albeit more judgmentally than the β's. The use of dividend yields does not obligate me to incorporate the assumptions of the DCF Model into my CEM analysis. A method that does not consider dividend yields produces proxy companies that are not comparable to utility companies with traded stock. I used Value Line's© proprietary database to show that not using dividend yields to screen stocks greatly inflates implied returns, even when β's are comparable (see Surrebuttal Exhibits DHC-2 & 3).

The CEM differs in other respects from the DCF and CAP-M. One of the most obvious differences is that CEM uses book value, not total returns or dividends as its main statistic. Using different methods allows different perspectives. A balanced analysis makes use of more than one perspective. To import assumptions from one perspective into another undoes the whole purpose of having multiple methods.

Q. WAS β THE ONLY FACTOR IN YOUR CEM ANALYSIS?

A. No. In addition to projected dividend yields, I also used projected growth rates for book value, earnings and sales to examine what other factors that determine growth were doing. Companies without data were eliminated from my CEM group because the absence of data for these factors indicates a lack of comparability or corporate mortality,

merger, delisting or other reasons for excluding a company. In addition, I also made sure that companies stayed in the same β range over the past five years, so I excluded companies that did not meet that criteria (see Direct Testimony Exhibit DHC- 6–8).

Q. WHAT WOULD BE THE EFFECT OF USING PROJECTED EARNINGS AND RAW β's IN A CEM ANALYSIS?

A. I have already set out the problems with relying exclusively on analysts' estimates: using them inflates returns. Using raw β's compounds this problem. Consider the reason for adjusting β's: unadjusted β's tend to return toward the mean, which is "1." By definition, low-β companies tend to become higher than β companies, by definition, their return rises toward that of the overall market. Using both factors in a CEM analysis, biases returns upward. It tends to produce overly high returns and they may have to be excluded as being unacceptably high.

Surrebuttal Concerning Small Company Premium

Q. IS THERE A SMALL COMPANY PREMIUM INCLUDED IN ACTUAL RETURNS FOR SMALL COMPANIES AND SHOULD ONE BE AWARDED TO REGULATED COMPANIES?

A. According to the argument for the small company premium, investors know that small companies are less stable and more vulnerable to risk, so investors insist on a higher return to compensate themselves for their risky investment. The most notable proponent is Ibbotson, whose data in Stocks, Bond, Bills and Inflation, published yearly, is almost always used to support this argument. There are serious questions about the validity and applicability of this premium. A distinguished economist and former member of the President's Council of Economic Advisors, Dr. Burton Malkiel of

Princeton University, writes in his investment guide, A Random Walk down Wall Street, that, "…one of the strongest patterns that investigators have found is the tendency over long periods of time for smaller company stocks to generate larger returns than those of large company stocks. Since 1926, small company stocks have produced rates of return over 1½ percentage points higher than the returns from large stocks…." However, he goes on to criticize the "small company premium" argument:

> *…it is also possible that the small firm effect found in some studies is simply a result of what is called "survivorship bias" in currently available computer tapes of past returns.* ***Today's list of companies includes only small firms that have survived – not the small firms that later went bankrupt.*** *[Emphasis added]*
>
> *Finally, the dependability of the small firm effect continuing is open to considerable question. Certainly during the 1990s there was little to gain from holding smaller stocks. Indeed, in most world markets it was the larger capitalization stocks that produced larger rates of return. It may be that the growing institutionalization of the market led portfolio managers to prefer larger companies with more liquidity to smaller companies where it would be difficult to liquidate significant blocks of stock. Clearly, buying a portfolio of small firms is hardly a surefire technique to enable an investor to earn abnormally high, risk-adjusted returns.*[9]

Survivorship bias poses such large problems for the small company premium argument that disregarding it seems the prudent thing to do. Moreover, there are other reasons why the argument is unpersuasive.

Simple economics, indeed common sense, suggests that the small company premium, if it existed, would be minuscule. For example, if investors truly believed that they could reap large returns from small companies and they actually could gain those

[9] Burton G. Malkiel, A Random Walk down Wall Street, N.Y., N.Y. : W.W. Norton & Co., 2003, p.259.

Note that the 1 ½ % differential that Dr. Malkiel cites is based on the geometric mean, see Ibid., p. 209.

returns, they would shift their investment into small companies. In turn, the small companies would realize that they had attracted this capital and they could cut their returns and still get most of the investments, as long as investors believed in the premium. The small companies would compete by retaining more money to invest for future gain and offering less and less premium because investors would bid the price for these companies up and their premia down, until they shrank the premia to virtually nothing. Once something like this happens, or once investors and companies figure this out, the premium is unlikely to materialize in the first place. It is virtually certain that each side long ago realized how the other would react, so the premium is unlikely to exist in the first place.

Surrebuttal Concerning Risk Adjustment

Q. IS A SPECIAL ADJUSTMENT NECESSARY FOR CWS'S RETURN DUE TO HIGHER RISK?

A. No. A proper analysis has the objective of determining what the return would be for similarly situated companies; therefore, no special adjustments are necessary.

Q. ARE YOU AWARE OF THE QUOTATION FROM DAVID C. PARCELL FROM PAGE 42 HIS PUBLICATION, THE COST OF CAPITAL – A PRACTITIONER'S GUIDE: "A GENERAL PRINCIPAL OF FINANCE MAINTAINS THAT THE FINANCING STRUCTURE OF A COMPANY SHOULD BE DETERMINED IN CONJUNCTION WITH THE PERCEIVED RISK OF THE ASSETS"?

A. Yes. The context of the statements is the topic of capital structure. The capital structure of CWS, although hypothetical, appears reasonable to me and not inappropriate; therefore, no adjustment is necessary.

In a broader perspective, a firm's capital structure incorporates debt and equity proportions. Bondholders assess risks connected to debt and they are incorporated into firms' weighted average cost of debt. The purpose of this proceeding is to determine the appropriate cost of common equity. If an analysis chooses generally comparable firms, there should be no need for any additional adjustment, especially adjustments to the return on equity to recognize the level of debt. Investors know of companies' levels of indebtedness and presumably price that into their return requirements. If there were some extraordinary circumstance wherein CWS had very high or extremely low costs of debt that were somehow not captured by proxy/comparable companies, it might be appropriate to make an adjustment, otherwise the capital structure itself is the adjustment because it, with embedded costs, affects the rate of return.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes it does.

GEOMETRIC MEAN OF HISTORICAL STOCK RETURNS

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation
1	9.1	10.9	19.3
2	10.5	12.9	22.3
3	10.9	13.6	23.8
4	10.8	13.9	26.0
5	11.4	14.8	26.8
6	11.4	15.0	27.5
7	11.4	15.4	29.7
8	11.6	16.5	34.3
9	11.7	17.2	36.5
10	13.3	21.0	44.9
Average	**11.21**	**15.12**	
Median	**11.40**	**14.90**	

Source:
Ibbotson SBBI 2011 Classic Yearbook: Market
10 Results for Stock, Bonds, Bills, and Inflation, 1926-2010,
p. 94.

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
3M Company	MMM	0.80	2.5	12.0	16.5
99(Cents) Only Stores	NDN	0.65	1.0	16.0	11.0
Activision Blizzard	ATVI	0.75	1.2	29.5	5.5
AeroVironment	AVAV	0.70		13.0	11.5
AGL Resources	AGL	0.75	3.5	4.5	6.0
Alexion Pharmac.	ALXN	0.80		31.5	20.0
Alleghany Corp.	Y	0.80		13.5	6.5
Allegiant Travel	ALGT	0.80		11.0	18.5
ALLETE	ALE	0.70	4.8	4.5	3.0
Alliant Energy	LNT	0.70	4.5	7.0	3.0
Alliant Techsystems	ATK	0.80	1.1	5.0	19.0
Amer. Elec. Power	AEP	0.70	4.5	4.5	4.5
Amer. States Water	AWR	0.75	2.7	5.5	2.0
Amer. Water Works	AWK	0.65	2.8	8.5	-0.5
Ameren Corp.	AEE	0.80	5.0	-2.0	1.5
AmerisourceBergen	ABC	0.70	0.5	12.0	11.5
Amgen	AMGN	0.65	1.4	8.0	12.5
Analogic Corp.	ALOG	0.80	0.6	18.5	5.0
AngioDynamics	ANGO	0.80		7.5	3.0
Annaly Capital Mgmt.	NLY	0.70	11.1	-3.5	0.5
Aon Corp.	AON	0.70	0.9	11.5	10.0
Aqua America	WTR	0.65	2.5	10.0	5.0
AT&T Inc.	T	0.75	4.3	7.5	6.5
Atmos Energy	ATO	0.70	4.1	5.0	4.5
Automatic Data Proc.	ADP	0.75	2.0	7.5	11.5
Avista Corp.	AVA	0.70	4.8	4.5	3.0
Baxter Int'l Inc.	**BAX**	**0.65**	**1.9**	**9.5**	**10.0**
Becton, Dickinson	BDX	0.65	2.0	9.0	9.5
Berkley (W.R.)	**WRB**	**0.70**	**0.8**	**11.5**	**8.5**
Biogen Idec Inc.	BIIB	0.75		10.0	5.0
BJ's Wholesale Club	BJ	0.70		9.0	9.0
Boston Beer 'A'	SAM	0.75		13.5	18.0
Bristol-Myers Squibb	**BMY**	**0.75**	**4.4**	**8.0**	**6.5**
Brown & Brown	**BRO**	**0.70**	**1.2**	**9.0**	**9.0**
Brown-Forman 'B'	BF/B	0.70	1.9	8.0	11.5
Buckeye Partners L.P.	BPL	0.80	6.5	7.5	6.0

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
CACI Int'l	CACI	0.80		15.0	10.5
California Water	CWT	0.70	2.8	6.0	3.5
Capitol Fed. Fin'l	**CFFN**	**0.65**	**2.1**	**8.0**	**19.5**
Cardinal Health	CAH	0.80	2.2	5.5	3.0
Career Education	CECO	0.80		13.0	6.0
Casey's Gen'l Stores	CASY	0.70	1.2	14.5	9.5
Catalyst Health Solns	CHSI	0.70		17.5	19.5
Celgene Corp.	CELG	0.75		20.5	22.5
Cen. Vermont Pub. Serv.	CV	0.75	3.4	2.0	3.0
CenterPoint Energy	CNP	0.80	4.8	3.0	10.0
CenturyLink Inc.	**CTL**	**0.75**	**7.6**	**-1.0**	**2.0**
Cephalon Inc.	CEPH	0.70		13.5	17.5
Cerner Corp.	CERN	0.80		16.5	17.5
CH Energy Group	CHG	0.65	4.1	4.0	2.0
Chemed Corp.	CHE	0.80	1.0	11.5	11.0
Clean Harbors	CLH	0.75		14.0	15.0
Cleco Corp.	CNL	0.65	4.7	6.0	6.5
CMS Energy Corp.	CMS	0.75	4.9	7.0	5.0
Coca-Cola Bottling	COKE	0.70	1.0	11.5	22.5
Commerce Bancshs.	CBSH	0.80	2.6	7.0	8.0
Computer Prog. & Sys.	CPSI	0.75	1.7	13.5	17.5
Comtech Telecom.	CMTL	0.70	3.8	2.0	9.5
ConAgra Foods	CAG	0.65	3.1	9.5	6.0
Consol. Edison	ED	0.65	4.7	3.0	2.5
Constellation Energy	CEG	0.80	2.5	18.0	6.5
Costco Wholesale	COST	0.75	1.1	9.0	6.5
CSG Systems Int'l	CSGS	0.75		4.0	18.0
Cubist Pharm.	CBST	0.75		10.0	15.0
CVS Caremark Corp.	CVS	0.80	1.5	8.0	7.5
Dean Foods	DF	0.70		6.5	10.0
DeVry Inc.	DV	0.65	0.3	16.5	16.5
Diamond Foods	DMND	0.65	0.2	21.0	18.5
Dominion Resources	D	0.70	4.7	4.5	6.0
Dr Pepper Snapple	DPS	0.75	2.8	9.0	8.0
DTE Energy	DTE	0.75	4.7	4.5	3.0
Duke Energy	DUK	0.65	5.2	5.5	2.5
EarthLink, Inc.	ELNK	0.65	1.2	-7.0	7.5
Ecolab Inc.	ECL	0.80	1.3	12.5	9.5

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
Edison Int'l	EIX	0.80	3.5	-1.0	5.0
Edwards Lifesciences	**EW**	**0.65**		**17.0**	**14.0**
El Paso Electric	EE	0.75	3.3	7.5	7.0
El Paso Pipeline	EPB	0.75	4.4	15.0	19.5
Empire Dist. Elec.	EDE	0.70	5.5	7.0	2.0
Endo Pharmac. Hldgs.	ENDP	0.70		8.0	11.5
Energy Transfer	ETP	0.80	7.3		1.0
Entergy Corp.	ETR	0.70	4.2	1.5	6.0
Erie Indemnity Co.	ERIE	0.70	3.6	10.5	3.5
Everest Re Group Ltd.	RE	0.75	1.7	3.5	10.0
Exxon Mobil Corp.	XOM	0.80	2.0	9.5	13.5
FirstEnergy Corp.	FE	0.80	4.7	0.5	4.5
Forest Labs.	**FRX**	**0.80**		**-8.0**	**7.0**
Forrester Research	FORR	0.80		13.0	6.5
FTI Consulting	FCN	0.65		13.5	9.5
Gallagher (Arthur J.)	AJG	0.70	4.2	8.5	11.0
Gen-Probe	GPRO	0.80		11.0	9.5
Genuine Parts	GPC	0.80	3.4	9.5	7.5
Gilead Sciences	GILD	0.65		7.5	9.0
Greatbatch, Inc.	GB	0.75		8.0	8.5
G't Plains Energy	GXP	0.75	5.5	6.0	1.5
Hanover Insurance	THG	0.80	1.9	10.5	7.5
Hansen Natural Corp.	HANS	0.80		15.5	23.0
Hasbro, Inc.	**HAS**	**0.75**	**2.0**	**9.0**	**4.5**
Hawaiian Elec.	HE	0.70	5.5	11.0	3.0
HCC Insurance Hldgs.	HCC	0.80	1.4	6.5	7.5
Healthcare Svcs.	HCSG	0.75	3.6	14.0	2.5
Heartland Express	HTLD	0.80	0.7	14.0	10.5
Heinz (H.J.)	HNZ	0.65	3.6	6.5	18.5
Hershey Co.	HSY	0.65	2.6	10.5	26.0
Hospira Inc.	**HSP**	**0.70**		**11.5**	**10.5**
Hot Topic, Inc.	HOTT	0.75	2.7	18.5	-3.0
Hudson City Bancorp	**HCBK**	**0.80**	**2.9**	**3.5**	**2.5**
Huron Consulting	HURN	0.70		28.5	9.5
IAC/InterActiveCorp	**IACI**	**0.70**		**31.0**	**5.0**
ICU Medical	ICUI	0.65		12.0	13.0
IDACORP, Inc.	IDA	0.70	3.6	4.0	5.0
Int'l Flavors & Frag.	IFF	0.80	1.5	9.0	12.5

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
Invacare Corp.	IVC	0.75	0.2	12.5	9.0
Investors Bancorp	**ISBC**	**0.75**		**79.5**	**5.5**
ITC Holdings	ITC	0.80	1.8	14.0	10.0
ITT Educational	ESI	0.65		4.5	20.0
J&J Snack Foods	**JJSF**	**0.70**	**1.0**	**10.5**	**8.0**
Johnson & Johnson	JNJ	0.65	3.0	5.0	12.0
Kinder Morgan Energy	KMP	0.75	7.2	8.0	4.5
Kraft Foods	KFT	0.65	2.9	8.5	9.5
Laboratory Corp.	LH	0.65		10.5	18.5
Lancaster Colony	**LANC**	**0.75**	**2.6**	**9.0**	**12.0**
Lilly (Eli)	LLY	0.80	5.0	-6.0	13.5
Lincare Holdings	LNCR	0.70	1.7	12.0	8.0
Lockheed Martin	LMT	0.80	3.8	6.5	19.0
LoopNet, Inc.	LOOP	0.80		3.5	12.5
ManTech Int'l 'A'	MANT	0.75		8.0	11.0
Marsh & McLennan	**MMC**	**0.75**	**2.4**	**28.5**	**5.0**
MAXIMUS Inc.	MMS	0.80	1.1	18.5	7.0
McDonald's Corp.	MCD	0.65	3.0	9.0	6.0
McKesson Corp.	**MCK**	**0.75**	**1.2**	**9.5**	**11.5**
MedAssets	MDAS	0.70		29.5	3.0
Medco Health Solutions	MHS	0.70		15.5	12.5
Merck & Co.	MRK	0.80	3.3	1.0	4.0
Mercury General	MCY	0.70	4.4	9.0	3.5
Myriad Genetics	MYGN	0.75		9.0	17.0
Nash Finch Co.	NAFC	0.70	2.1	7.0	9.5
Navigant Consulting	NCI	0.80		11.0	8.5
New Jersey Resources	NJR	0.65	3.6	4.0	6.0
Newmont Mining	NEM	0.80	1.8	-3.5	11.0
NextEra Energy	NEE	0.75	3.5	3.5	7.0
Nicor Inc.	GAS	0.75	4.1	-0.5	3.5
Northeast Utilities	NU	0.70	3.6	7.5	6.0
Northwest Bancshares	NWBI	0.75	2.9	15.5	6.5
NSTAR	NST	0.65	4.5	7.0	5.5
OGE Energy	OGE	0.75	3.4	6.5	7.5
O'Reilly Automotive	ORLY	0.80		13.5	14.0
OSI Systems	OSIS	0.80		21.5	10.0
Owens & Minor	**OMI**	**0.65**	**2.5**	**10.0**	**10.5**
Peet's Coffee & Tea	PEET	0.75		21.0	12.5

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
People's United Fin'l	PBCT	0.65	2.7	21.0	3.5
Pepco Holdings	POM	0.80	5.0	2.5	2.0
Perrigo Co.	PRGO	0.70	0.3	17.5	13.5
PetSmart, Inc.	PETM	0.80	1.2	12.0	11.0
Pfizer, Inc.	PFE	0.75	4.1	10.5	1.5
PharMerica Corp.	PMC	0.75		6.0	7.5
Philip Morris Int'l	PM	0.75	4.2	8.0	11.0
Piedmont Natural Gas	PNY	0.65	3.7	3.0	3.0
Pinnacle West Capital	PNW	0.70	5.5	6.0	2.5
Portland General	POR	0.75	4.8	7.5	3.5
PPL Corp.	PPL	0.65	4.5	7.0	9.0
Public Serv. Enterprise	PEG	0.75	3.7	1.0	7.5
Quest Diagnostics	**DGX**	**0.70**	**0.6**	**9.0**	**12.0**
Raytheon Co.	RTN	0.70	3.1	5.5	8.5
ResMed Inc.	RMD	0.75		17.0	15.5
RLI Corp.	RLI	0.80	1.9	3.0	10.0
Rollins, Inc.	**ROL**	**0.80**	**1.5**	**13.5**	**12.0**
Ross Stores	ROST	0.80	1.4	18.0	16.5
Rovi Corp.	ROVI	0.80		37.0	13.5
Ruddick Corp.	RDK	0.65	1.4	8.5	9.5
Safeway Inc.	**SWY**	**0.70**	**2.3**	**7.0**	**2.5**
Sanderson Farms	SAFM	0.70	1.3	18.5	11.0
Sara Lee Corp.	**SLE**	**0.80**	**2.8**	**7.5**	**-30.5**
SCANA Corp.	SCG	0.65	4.5	3.0	5.0
Schein (Henry)	HSIC	0.80		8.5	13.0
Sempra Energy	SRE	0.80	3.5	3.5	6.0
Sherwin-Williams	**SHW**	**0.70**	**2.0**	**11.0**	**15.0**
Silgan Holdings	**SLGN**	**0.80**	**1.4**	**11.5**	**18.0**
Smart Balance	SMBL	0.75		72.0	2.5
Smucker (J.M.)	**SJM**	**0.70**	**2.0**	**9.5**	**6.5**
Solera Hldgs.	SLH	0.80	0.7	21.5	9.0
SonoSite, Inc.	SONO	0.80		25.5	5.5
South Jersey Inds.	SJI	0.65	3.5	9.0	6.5
Southwest Gas	SWX	0.75	2.8	8.0	5.5
Spartan Stores	SPTN	0.75	0.9	4.5	10.0
Stericycle Inc.	**SRCL**	**0.70**		**13.0**	**19.0**
StoneMor Partners L.P.	STON	0.80	7.6	33.0	-22.0
Strayer Education	STRA	0.65	1.4	9.0	8.5

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
Stryker Corp.	**SYK**	**0.80**	**0.8**	**9.5**	**11.5**
Sturm, Ruger & Co.	RGR	0.75	0.9	8.5	16.0
Suburban Propane	**SPH**	**0.75**	**6.5**	**1.0**	**10.5**
Sysco Corp.	SYY	0.75	3.0	7.5	10.5
Techne Corp.	TECH	0.75	1.1	7.5	10.0
Teleflex Inc.	TFX	0.80	1.7	8.5	10.0
TJX Companies	**TJX**	**0.80**	**1.1**	**14.0**	**13.5**
Tootsie Roll Ind.	TR	0.70	1.1	5.0	4.5
UGI Corp.	UGI	0.70	2.7	3.0	8.5
UIL Holdings	UIL	0.70	4.6	3.0	5.5
UniSource Energy	UNS	0.75	3.3	9.5	5.0
United Natural Foods	UNFI	0.80		10.0	11.0
Varian Medical Sys.	VAR	0.80		13.0	14.5
Vectren Corp.	VVC	0.70	4.7	5.0	4.0
Verizon Communic.	VZ	0.70	3.7	5.5	5.0
Village Super Market	VLGEA	0.75	1.5	1.0	8.0
Walgreen Co.	**WAG**	**0.75**	**2.1**	**11.5**	**6.0**
Washington Post	WPO	0.80	1.2	12.5	7.5
Waste Connections	WCN	0.75	1.4	15.0	6.0
Waste Management	WM	0.80	3.4	7.0	4.0
Watson Pharmac.	**WPI**	**0.75**		**11.5**	**9.5**
WD-40 Co.	**WDFC**	**0.75**	**2.5**	**9.5**	**10.0**
WebMD Health	WBMD	0.80		22.5	11.5
Weis Markets	**WMK**	**0.65**	**2.6**	**6.5**	**5.5**
West Pharmac. Svcs.	**WST**	**0.80**	**1.4**	**10.5**	**9.0**
Westar Energy	WR	0.75	4.8	8.5	2.5
WGL Holdings Inc.	WGL	0.65	4.2	1.5	3.5
Winn-Dixie Stores	WINN	0.80		5.5	1.0
Wisconsin Energy	WEC	0.65	4.0	8.5	4.0
World Wrestling Ent.	WWE	0.80	4.0	5.0	3.5
Xcel Energy Inc.	XEL	0.65	4.8	5.0	5.0

Averages[1]	**2.97**	**10.26**	**8.52**

Averages, if Projected Dividend Yield > 0	**2.97**	**8.34**	**7.42**

ANALYSIS OF MS. AHERN'S CEM SCREENING

Company	Ticker	Beta: 0.65-0.80	Proj 3-5 Yr Dividend Yield	Proj EPS Growth Rate	Proj Book Value Growth Rate
Averages for Ms. Ahern's Group, if Div. Y. > 0			**2.33**	**9.78**	**7.90**

Footnote 1: one company with no projected book value, AutoZone was omitted because it had no projected book value growth or dividend yield; if it was included the Projected EPS Growth Rate would be 10.28

Source: Value Line© screener

ANALYSIS OF MS. AHERN'S CEM GROUP

			EARNINGS PER SHARE GROWTH (%)			SALES GROWTH (%)	
COMPANY NAME	TICKER	CURRENT DIVIDEND YIELD	LAST 5 YRS. PER ANNUM	CURRENT YEAR	NEXT 5 YEARS PER ANNUM	THIS YEAR	NEXT YEAR
Arthur J Gallagher & Co	AJG	4.70%	-2.58%	-13.50%	9.33%	11.20%	9.10%
AutoZone Inc	AZO	N/A	19.23%	28.40%	**15.28%**	8.90%	5.20%
Baxter International Inc	BAX	2.20%	13.32%	8.30%	9.54%	5.70%	4.60%
Bristol-Myers Squibb Company	BMY	4.50%	17.08%	5.10%	0.13%	8.00%	-13.40%
Brown & Brown Inc	BRO	1.50%	-4.32%	0.00%	10.75%	3.30%	7.40%
Capitol Federal Financial Inc	CFFN	2.80%	16.89%	-2.40%	3.00%	0.00%	8.00%
CenturyLink Inc	CTL	8.20%	3.17%	-52.20%	21.10%	164.50%	-2.20%
Quest Diagnostics Inc	DGX	0.80%	8.96%	4.70%	11.21%	1.60%	2.90%
Edwards Lifesciences Corp	EW	N/A	17.04%	11.40%	**26.27%**	17.60%	19.40%
Forest Laboratories Inc	FRX	N/A	9.02%	-15.20%	**-5.10%**	1.80%	-25.50%
Gilead Sciences Inc	GILD	N/A	28.47%	6.80%	**15.25%**	5.30%	8.40%
Gen-Probe Inc	GPRO	N/A	12.93%	5.90%	**12.49%**	6.60%	11.90%
Hasbro Inc	HAS	3.20%	7.94%	15.60%	15.50%	11.60%	4.90%
Hudson City Bancorp Inc	HCBK	5.20%	18.61%	-150.50%	5.00%	-10.40%	0.00%
Hospira Inc	HSP	N/A	17.14%	19.00%	**10.08%**	8.40%	6.00%
IAC/InterActiveCorp	IACI	N/A	-18.96%	143.40%	**38.00%**	19.30%	10.70%
Investors Bancorp Inc	ISBC	N/A	37.22%	30.40%	**15.00%**	22.30%	7.90%
J&J Snack Foods Corp	JJSF	0.90%	14.00%	0.00%	N/A	6.30%	6.80%
Lancaster Colony Corporation	LANC	2.20%	20.25%	-11.80%	10.00%	3.80%	4.00%
McKesson Corporation	MCK	1.00%	15.12%	24.60%	13.20%	6.40%	1.90%
Marsh & McLennan Companies Inc	MMC	3.00%	7.14%	11.60%	10.44%	8.90%	6.00%
MAXIMUS Inc	MMS	1.00%	52.07%	21.50%	10.00%	11.50%	10.30%
Owens & Minor Inc	OMI	2.70%	18.13%	1.50%	9.77%	5.50%	4.40%
Rollins Inc	ROL	1.40%	11.71%	19.60%	10.00%	6.20%	4.70%
The Sherwin-Williams Company	SHW	1.90%	-2.92%	8.80%	10.70%	11.30%	7.00%
The J. M. Smucker Company	SJM	2.70%	13.72%	6.70%	7.08%	18.60%	0.60%
Sara Lee Corp	SLE	2.50%	-4.76%	17.90%	10.42%	7.90%	4.10%
Silgan Holdings Inc	SLGN	1.20%	7.44%	21.00%	6.03%	14.60%	3.80%
Suburban Propane Partners LP	SPH	7.20%	31.85%	-1.80%	2.50%	4.20%	-2.00%
Stericycle Inc	SRCL	N/A	20.28%	11.50%	**18.00%**	13.80%	8.40%
Safeway Inc	SWY	3.20%	-5.39%	11.00%	9.98%	4.80%	1.90%
Stryker Corp	SYK	1.50%	12.26%	11.40%	10.76%	14.00%	6.80%
The TJX Companies Inc	TJX	1.40%	21.62%	12.90%	13.23%	6.70%	6.70%
Walgreen Co	WAG	2.50%	6.40%	21.20%	14.60%	6.90%	4.90%
WD-40 Company	WDFC	2.60%	5.09%	-3.70%	12.00%	3.70%	6.10%
Weis Markets Inc	WMK	3.00%	-2.25%	N/A	N/A	N/A	3.50%
Watson Pharmaceuticals Inc	WPI	N/A	32.16%	29.80%	**12.36%**	25.40%	17.00%
W.R. Berkley Corporation	WRB	1.00%	-9.88%	-11.50%	9.50%	4.90%	5.80%
West Pharmaceutical Services Inc	WST	1.70%	0.48%	12.40%	15.00%	7.20%	4.60%
Averages		**2.68%**	**11.94%**	**6.84%**	**11.58%**	**12.59%**	**4.68%**
Averages, if Dividend Yield>0			**10.04%**	**-0.41%**	**10.03%**	**12.46%**	**3.90%**

Source: Yahoo! Finance; not intended as investment advice by Yahoo!